COMPANY RESEARCH AND ANALYSIS REPORT

gremz, Inc.

3150

Tokyo Stock Exchange First Section

28-Jan.-2022

FISCO Ltd. Analyst

Nozomu Kunishige

FISCO Ltd.

https://www.fisco.co.jp

Index

Summary

Aiming for sustainable growth as an energy solutions company driven by electricity retailing business

1. Energy solutions company

gremz, Inc. <3150> (hereinafter, also referred to as "the Company") lists its shares on the First Section of the Tokyo Stock Exchange (TSE-1) and provides a wide range of products and services related to energy that cover all types of electricity, from low to high voltage, to a broad spectrum of customers from ordinary households to plants, offices, and other locations. Obtained through continuation of appropriate consulting that fits customer needs by sales employees who possess extensive proposal capabilities related to energy since the founding, Group strengths are "sales capabilities supported by an abundant customer base," "robust profitability achieved via differentiation from other companies," and "market environment and growth opportunities." While the Company sustained sales and profit gains from steady income in the Energy Cost Solutions Business and Smart House Project Business and growth in the Electricity Retailing Business up to now, it expects further income expansion driven by Electricity Retailing Business. The Company plans to list on the "Prime Market" in the TSE new market designation from April 2022.

2. Posted higher sales and profits in 2Q FY03/2022 results, all three businesses exceeded project

The Company reported 2Q FY03/2022 consolidated results of ¥10,402mn in net sales (+25.0% YoY) and ¥1,918mn in operating income (+18.9%), achieving sharply higher sales and profits amid a tough business environment due to curtailment of economic activities related to the COVID-19 pandemic. Performance was strong, with upside of 10.9% in net sales and 26.9% in operating income compared to the period-start forecast. Energy Cost Solutions Business booked a 45.3% rise YoY in operating income on increase in profit margin from stronger sales of photovoltaic systems for commercial self-consumption and IoT devices. Smart House Project Business had a 56.7% gain in operating income thanks to healthy expansion of storage battery sales. Electricity Retailing Business, meanwhile, incurred a 13.8% decline in operating income because of reduced profitability compared to the previous year from stabilization of the electricity procurement price, though still outpaced project. The capital ratio improved by 10.5ppt versus the end of the previous fiscal year to 57.0%, sustaining a healthy financial base. ROE and profitability are both at high levels. The interim dividend was on par with the previous fiscal year at ¥5.0.

3. Expecting a substantial rise in FY03/2022 profits led by recovery in Electricity Retailing Business, starting new business too

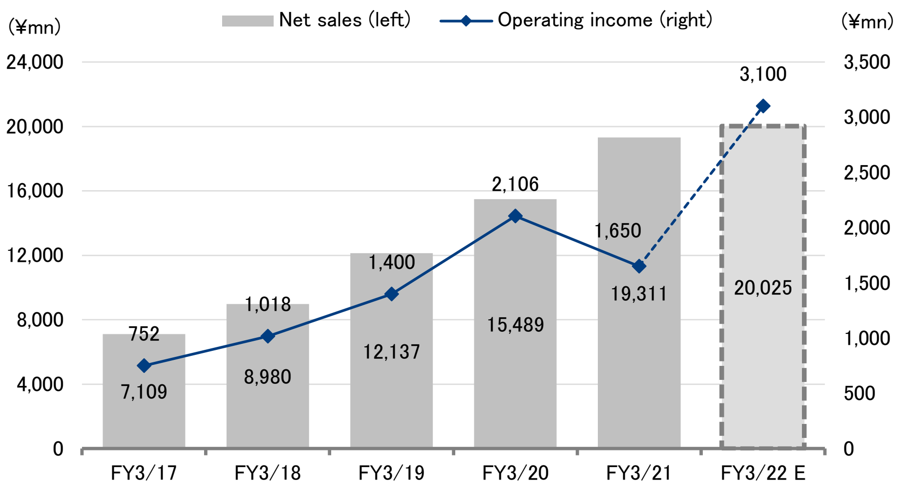
The Company retained FY03/2022 period-start forecast at ¥20,025mn in net sales (+3.7% YoY) and ¥3,100mn in operating income (+87.8%), which projects higher sales and profits. Energy Cost Solutions Business outlook expects profit decline, even with ongoing promotion of various energy-saving equipment sales and expansion of sales of photovoltaic systems for commercial self-consumption. In Smart House Project Business, the plan forecasts slightly lower profit, despite continued promotion of storage battery sales accompanying increases in renewable energy demand and post-FIT cases. Electricity Retailing Business envisions restoration of profits premised on the absence of a steep rise in electricity market prices along the lines that occurred in December 2020 to January 2021 thanks to measures by the Electricity and Gas Market Surveillance Commission. Recovery in Electricity Retailing Business earnings is the main source of the sharp increase in the forecast for overall profits. Meanwhile, since the Company typically presents a conservative period-start outlook and consolidated operating income in 2Qwas at 61.9% of the full-year target, FISCO expects FY03/2022 results to surpass the period-start forecast.

The Company plans to pay a ¥14.5 dividend in FY03/2022 with a ¥5.0 interim dividend and ¥9.5 period-end dividend. While this is less than FY03/2021's ¥17.0 dividend, the previous fiscal year included a ¥2.5 commemorative dividend marking the stock's switch from the TSE JASDAQ Standard market to TSE-2 in the interim dividend and a ¥2.5 commemorative dividend marking the stock's designation as a TSE-1 listing in the period-end dividend. The FY03/2022 dividend might exceed project if earnings beat the period-start forecast. The Company aims to continue sales and profit increases by securing steady profits in Energy Cost Solutions Business and Smart House Project Business while promoting Electricity Retailing Business with large growth potential. Furthermore, it has launched new businesses, such as sales of photovoltaic systems for commercial self-consumption. Additionally, the Company is focusing on corporate social responsibility (CSR) and is likely to attract interest as an ESG (environment, social, and governance) investment stock as well.

Key Points

- Provides a wide range of energy-related products and services under its Energy Cost Solutions Business, Smart House Project Business, and Electricity Retailing Business.
- Posted higher sales and profits in 2Q FY03/2022 with strong performance of Energy Cost Solutions Business and Smart House Project Business and Electricity Retailing Business above project. Reports healthy financial standing and high profitability
- Retained FY03/2022 period-start forecast with sharply higher profits and had sound operating income in 2Q at 61.9% of the full-year target. Plans to pay a ¥14.5 annual dividend in FY03/2022 (excluding FY03/2021's ¥5.0 in commemorative dividends) and might even exceed the target if earnings overshoot. Also focusing on CSR and plans to list on TSE's Prime Market

Results trends



Source: Prepared by FISCO from the Company's financial results

Company outline

Comprehensive energy solutions company that provides all types of electricity from low to high voltage

1. Company outline

The Company has steadily grown through provision of energy solutions to customers for improvement of electric power operational efficiency, facilities, and procurement cost with "energy creation, savings, and storage" as main business areas. It currently operates the Energy Cost Solutions Business, Smart House Project Business, and Electricity Retailing Business. As a holding company, it formulates and promotes Group management strategies and oversees management of business companies. Main Group companies are GR consulting, Inc., which provides consulting on reduction of electricity costs for businesses, gremz power, Inc., which handles electricity retailing and intermediation as well as sales of IoT equipment, and gremz solar, Inc., which sells photovoltaic systems, storage batteries, and other energy-related products and develops renewable energy.

The electricity market is likely to expand over the long term driven by full liberalization of electricity retailing. The Group delivers a wide range of products and services related to energy that covers all areas from the low-voltage electricity market that supplies power to ordinary households, small and mid-sized factories, and others (less than 50kW in contract power) to the high-voltage electricity market (more than 50kW) that supplies power to factories, supermarkets, and buildings.

The Company name has its roots in "blog parts-type environmental contribution service that cultivates seedlings via a blog" that the Company previously operated, and the logo mark adopts a design resembling tree leaves to express the combination of diverse colors via gradation of the Sun that provides energy to all living things on Earth, water that is the source of all life, and trees that are symbols of breathing enabled by the Sun and water. The Group has a management philosophy of "filling the world with inspiration and joy" and aims to realize a group of companies that are always appreciated and given support in a changing environment and are capable of permanently coexisting with society. It strives to remove information disparity, spread high value, and contribute to building a society that facilitates a prosperous and reassuring life.

2. Group strengths

Group strengths are "sales capabilities supported by an abundant customer base," "robust profitability achieved via differentiation from other companies," and "market environment and growth opportunities."

Regarding "sales capabilities supported by an abundant customer base," the Group has a robust customer base with approximately 52,000 low-voltage electricity customers (electronic circuit breaker) as of FY03/2021. It has an approximately 78% conversion rate from other power companies to its own Group when making retail proposals thanks to cross-selling based on facility and procurement improvement proposals. It intends to continue pursuing differentiation from other companies and increasing customer volume.

Next, regarding "robust profitability achieved via differentiation from other companies," the Group is capable of sustaining stable earnings, even when electricity procurement prices rise sharply in response to seasonal factors, such as the summer and winter, because of its extensive retail sales to small and mid-sized factories with low load factor (percentage of electricity consumed to peak contracted electricity volume). Low load factor means that the amount of electricity consumed versus contracted electricity volume is relatively small. With many customers in industries and businesses that have low load factor, electricity procurement volume is curtailed even at times of upswing in electricity procurement prices, and this makes it easier to secure profitability. In fact, the Company's load factor was 9.5% in FY03/2021, a considerably lower level than the 30-40% at other companies. The Company aims to continue supplying electricity to customers with low load factor and sustaining high operating profitability. It is also implementing measures to lower volatility risk of procurement prices, such as raising the direct-purchase power source ratio, for the purpose of addressing steep upswings in electricity market prices along the lines incurred in FY03/2021.

Regarding "market environment and growth opportunities," the Company is capable of targeting rapid growth in the electricity retailing business and expansion of storage battery sales by leveraging the market environment, which boasts increasing earnings opportunities with the full liberalization of the electricity retailing and expansion in the number of users reaching the end of the purchasing period for FIT (a program that requires power companies to purchase electricity from solar power and other renewable energy sources at a fixed price).

3. History

Masaomi Tanaka, the Company's current President and Chief Executive Officer, founded the Company on July 4, 2005. While the Company initially started by selling electronic circuit breakers, it began store sales of household photovoltaic systems in April 2010, started selling LED lighting in December 2012, entered the energy intermediation and began energy management system sales in December 2013, started solar power plant operations in March 2014, and entered the electricity retailing business in December 2016. It has steadily broadened its business scope mainly around energy-related areas.

The Company switched to a holding company system in April 2011 accompanying business expansion and adopted its current company name. While it initially listed on the JASDAQ Stock Exchange (now, TSE JASDAQ Standard) in March 2009, it shifted to TSE-2 in June 2020 and ascended to TSE-1 in November 2020. The Company plans to list on the Prime Market in the TSE new market categories that take effect from April 2022. It had 348 consolidated employees as of March 31, 2021.

History

Date	Main historical events
July 2005	The Company was founded with a view towards reducing energy costs as well as environmental load. Started sales of electronic circuit breakers.
July 2007	Started sales of fully electric appliances (EcoCute and induction heating cooking heaters).
March 2009	Listed on the JASDAQ Securities Exchange (later renamed TSE JASDAQ Standard).
April 2010	Started sales of photovoltaic systems.
April 2011	Renamed the company gremz, Inc. and established it as a holding company. Founded gremzsolar, Inc. and GR consulting, Inc.
December 2012	Founded GF lightec, Inc. Started sales of LED lighting systems.
December 2013	Concluded a comprehensive contract with ENERES Co., Ltd., which handles electricity management and other services, and started conducting energy intermediation and sales of energy management systems.
March 2014	Started operating a solar power plant as a renewable energy development business.
September 2014	Formed a capital alliance with ENERES Co., Ltd.
May 2015	gremzsolar, Inc. began the operation of a solar power plant in Tsumagoi.
February 2016	Renamed GF lightec, Inc. as gremz power, Inc. due to business reorganization.
April 2016	Separated the energy intermediation and energy management system sales business from GR consulting, Inc. and transferred it to gremz power, Inc.
May 2016	gremzsolar, Inc. began the operation of a solar power plant in Futokoroyama.
November 2016	Registered gremz power, Inc. as an electricity retailing company.
December 2016	gremz power, Inc. entered the electricity retailing business.
May 2018	gremz power, Inc. started electricity retailing to high-voltage electricity customers. Participated in an environmental technology verification program centered around VPP (virtual power plant) technology, as a resource aggregator.
June 2020	Changed Stock Market listing to the Second Section of Tokyo Stock Exchange (TSE-2)
November 2020	Ascended to the First Section of Tokyo Stock Exchange (TSE-1)

Source: Prepared by FISCO from the Company's webpage and securities report

Business description

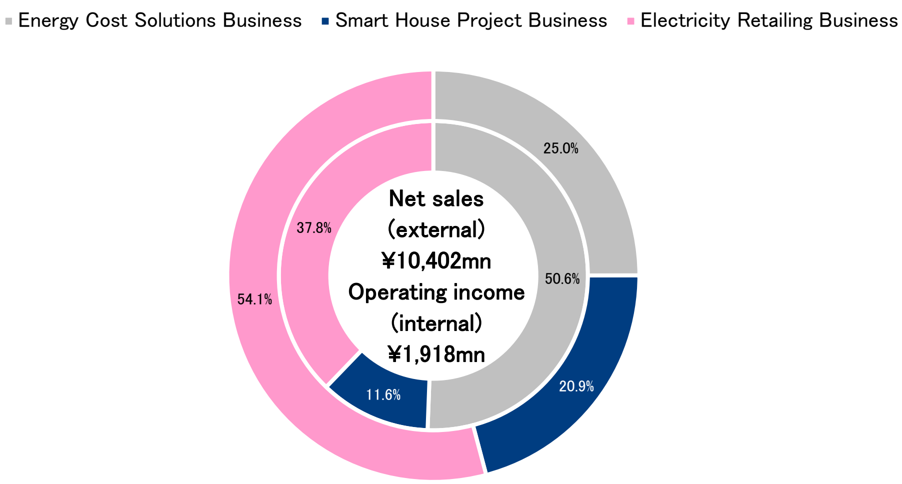
Conducts business focused on energy-related products and services

The Group has developed businesses focused on energy-related products and services. gremz is a rare comprehensive energy solutions company that provides solutions to customers for improvement of electric power operational efficiency, facilities, and procurement cost covering the full range of electricity from low to high voltage.

The Group has three subsidiaries (GR consulting, gremz power, and gremz solar), and business segments define business areas by sales coverage (businesses, general consumers) and sales content (products, electricity). Energy Cost Solutions Business includes GR consulting with sales of electronic circuit breakers, LED lighting, and a variety of energy-efficient appliances and gremz power with electricity intermediation sales to high-voltage electricity customers (from 6,600V) and sales of IoT devices, LED lighting, and various energy-efficient appliances to these customers. Smart House Project Business covers sales of household photovoltaic systems, storage batteries, and fully-electric appliances and development of renewable energy by gremz solar. Furthermore Electricity Retailing Business involves retail electricity sales to low-voltage electricity customers (200V, 100V) and high-voltage electricity customers (from 6,600V) by gremz power.

Business segment results in 2Q FY03/2022 show Energy Cost Solutions Business, which carries out consultations to reduce electric power costs, had ¥2,597mn in net sales (25.0% of the Company's total) and ¥1,150mn in operating income (50.6%), Smart House Project Business, which sells storage batteries and household photovoltaic systems, had ¥2,172mn in net sales (20.9%) and ¥264mn in operating income (11.6%), and Electricity Retailing Business, which engages in retail sales of electricity, had ¥5,633mn in net sales (54.1%) and ¥860mn in operating income (37.8%). Electricity Retailing Business is a new business that the Company separated into an independent division in FY03/2018. It finished this fiscal year with an increase in sales and a decrease in profit YoY, and has already grown into an important business that accounts for more than 50% of overall net sales and less than 40% of overall operating income.

Net sales and operating income for 2Q FY3/22 by segment



Source: Prepared by FISCO from the Company's financial results

1. Energy Cost Solutions Business

Proposes energy cost reductions to businesses through mainly subsidiaries GR consulting and gremz power

GR consulting provides consulting on electricity cost reductions to small and mid-sized businesses and other low-voltage electricity customers. Electricity cost reductions for low-voltage customers realize operational improvement by cutting fixed monthly basic electricity charges while ensuring sufficient electricity supply via proposals to change the electricity contract type and install electronic circuit breakers. GR consulting sells electronic circuit breakers through lease and credit and conducts replacement sales after the leasing period finishes. There is also a rental option for customers who want to rent. Additionally, regarding facility improvement, it sells various energy-efficient appliances, such as LED lighting, commercial air conditioners, and freezers, on top of photovoltaic systems for businesses. It conducts sales activities nationwide from business sites in Tokyo, Osaka, and Nagoya.

Meanwhile, gremz power provides consulting services for electricity cost savings to high-voltage electricity customers such as office buildings and large-scale plants. Specifically, it proposes energy intermediation by revisions to electric power supplier that improve procurement terms and arranges power sales to realize cutbacks in electricity fees. Regarding operational efficiency improvement, it sells energy management systems (EMS) and IoT devices that monitor electricity usage conditions. Furthermore, in relation to facility improvement, it conducts cross-selling of LED lighting, commercial air conditioners, trances, condensers, and other energy-efficient appliances, and sales of photovoltaic systems for businesses.

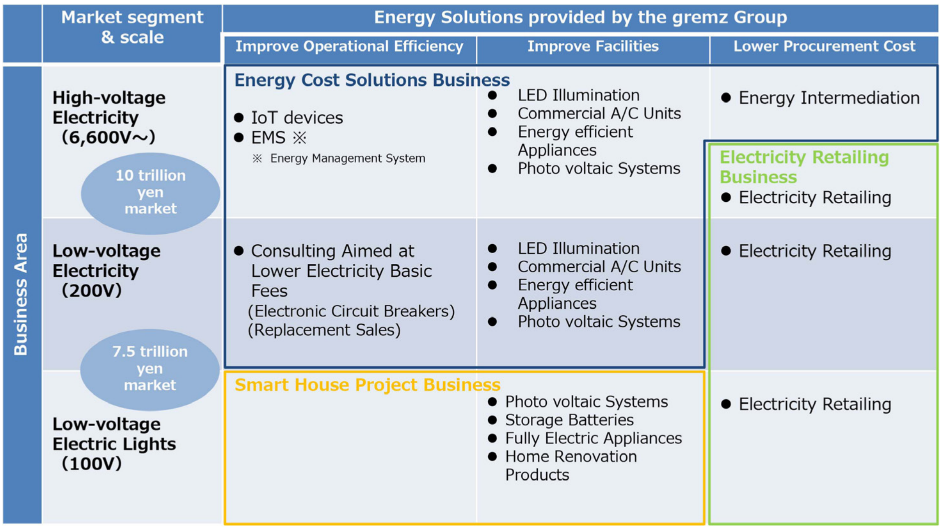
2. Smart House Project Business

This business improves facilities by selling energy-related products, such as household photovoltaic systems and storage batteries, and develops renewable energy with subsidiary gremzsolar handling sales of a variety of products to general consumers. For household photovoltaic systems and storage batteries, the Company handles products from Choshu Industry Co., Ltd., Kyocera <6971>, Panasonic <6752>, and Omron <6645>, and the average sales price per system is approximately ¥2mn. Sales activities consist of selling at event sites at Aeon Mall <8905> venues and other large retail facilities where families gather and selling via introductions made by housing manufacturers and other companies that are business partners. Additionally, the Company handles consignments of outsourced projects, such as roof painting related to photovoltaic system installations. In the renewable energy development business, it has recurring revenue sources from income generated by selling electricity from solar power plants (mainly megasolar sites owned in Gunma Prefecture and Shizuoka Prefecture).

3. Electricity Retailing Business

gremz power was registered as an electricity retailing business in November 2016, and commenced operation in December of the same year. Electricity Retailing Business involves selling electricity procured from an electric power exchange that is operated by public interest incorporated organization Japan Electric Power Exchange (JEPX) as an intermediary corporation, or electricity procured from power generating companies by mutual agreement to consumers of low and high voltage electricity, and generating revenue from electricity fees obtained from customers every month. As a means of procurement improvement, customers can purchase electricity at a price that is comparatively cheaper than purchasing it from a general electric utility. Although gremz power initially sold exclusively to consumers of low voltage electric lights for ordinary households and consumers of low voltage electricity such as small- and mid-sized factories, the company has been expanding its sales targets to consumers of high voltage electricity such as factories, supermarkets, and office buildings since May 2018.

Products and Services provided by the Group



Source: The Company's materials

Business trends

Posted sharply higher sales and profits exceeding period-start forecast in 2Q FY03/2022

1. 2Q FY03/2022 results overview

The Japanese economy faced difficult conditions in 2Q FY03/2022 due to curtailment of economic activities by the COVID-19 pandemic. Despite some signs of recovery, such as progress in vaccination uptake and removal of the state of emergency declaration, downside risks include semiconductor shortages and upswing in fuel prices, and the outlook is uncertain.

The Group receives stable demand, despite fluctuations in economic activity, because it handles products and services that lower costs and promote energy savings in this economic environment. Furthermore, orders from business operators and ordinary consumers were upbeat thanks to proposals of eco-friendly products and services suited to social trends, such as promoting use of renewable energy and decarbonization.

Energy Cost Solutions Business expanded sales of photovoltaic systems for commercial self-consumption and IoT devices. Smart House Project Business steadily increased sales of storage batteries. Electric Retailing Business achieved healthy sales growth accompanying a rise in contract volume, but earnings dropped on lower profitability compared to the previous year with decline in electricity procurement prices from COVID-19 impact. Nevertheless, all three businesses booked results that beat period-start forecast.

Thanks to these trends, the Company reported 2Q FY03/2022 consolidated results of ¥10,402mn in net sales (+25.0% YoY), ¥1,918mn in operating income (+18.9%), ¥1,948mn in recurring income (+18.4%), and ¥1,324mn in net income attributable to owners of the parent (+17.8%), achieving sharply higher sales and profits. Compared to the period-start forecast announced at FY03/2021 results, net sales exceeded project by just over 10% and profit exceeded approximately 30% at various profit levels. Operating margin dropped from 19.4% in the previous fiscal year to 18.4% and hence remained stable at a high level even in a difficult economic environment.

2Q FY3/22 consolidated income statement

(¥mn)

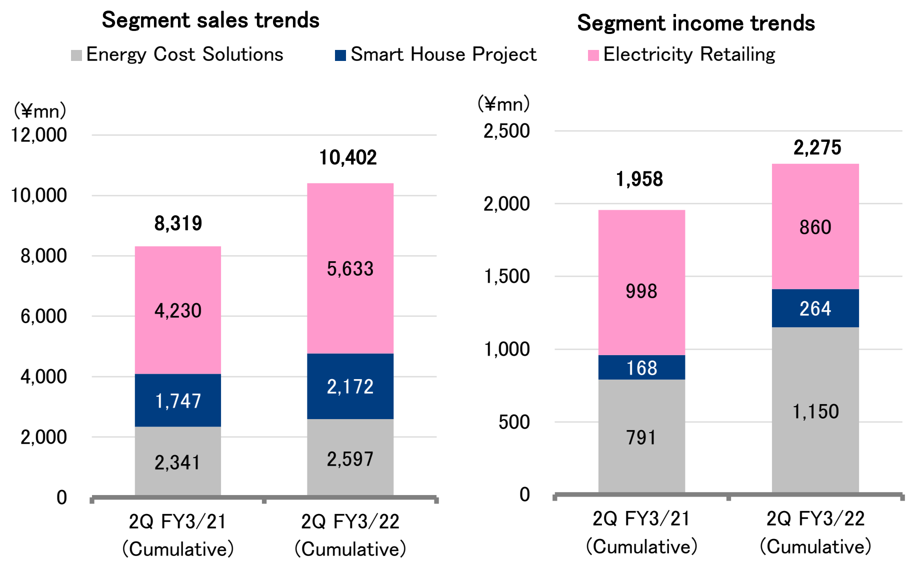
	2Q FY3/21 (Cumulative)		2Q FY3/22 (Cumulative)			YoY		vs. targets	
	Results	% of sales	Forecast	Results	% of sales	YoY change	% change	YoY change	% change
Net sales	8,319	100.0%	9,381	10,402	100.0%	2,083	25.0%	1,021	10.9%
Operating income	1,613	19.4%	1,511	1,918	18.4%	304	18.9%	406	26.9%
Ordinary income	1,644	19.8%	1,527	1,948	18.7%	303	18.4%	421	27.6%
Profit attributable to owners of parent	1,124	13.5%	1,000	1,324	12.7%	199	17.8%	323	32.4%

Note: Targets are from period-start guidance at the FY03/2021 results announcement
Source: Prepared by FISCO from the Company's financial results

Looking at each segment, in Energy Cost Solutions Business, the Company provides consulting to lower electricity base fees and promotes sales of various energy-efficient appliances with the aim of reducing business operator costs and supporting energy savings, and it presented proposals to customers aimed at improving electricity operating and facilities. Additionally, it expanded sales of photovoltaic systems for commercial self-consumption, which was launched in the previous fiscal year, and IoT devices as well. As a result, the segment posted ¥2,597mn in net sales (+10.9% YoY) and ¥1,150mn in operating income (prior to deducting companywide costs (same below); +45.3%) and raised operating margin from 33.8% in the previous fiscal year to 44.3%. It overshot period-start project targets by 10.8% in net sales and 17.8% in operating income. For operating income, despite YoY decline in sales of various energy-efficient appliances and energy intermediation fees, the segment reported a substantial profit increase and contributed to higher companywide profits thanks to sales of photovoltaic systems for commercial self-consumption and IoT devices and declines in various SG&A expenses.

In Smart House Project Business, net sales expanded on robust sales promotion of storage batteries with firm demand supported by the market environment amid heightened interest in renewable energy and increase in photovoltaic power post-FIT cases that have completed application of the 10-year fixed-price purchase program. Furthermore, impact on event sales was modest, in comparison to the previous year, even with the state of emergency declaration in response to COVID-19 spread. As a result, the segment posted ¥2,172mn in net sales (+24.3% YoY) and ¥264mn in operating income (+56.7%) and raised operating margin from 9.6% in the previous fiscal year to 12.2%. Profit climbed substantially this fiscal year, including rebound from weakened earnings in the previous fiscal year due to COVID-19 impact. Operating income strengthened on a large boost from storage battery sales and contributed to an increase in overall profit. The segment overshot period-start project targets by 1.3% in net sales and 24.4% in operating income.

In Electricity Retailing Business, even with healthy growth in orders driven by electricity procurement improvement proposals to customers, profitability declined in this period on stabilization of the electricity procurement price, in contrast to a drop in the procurement price accompanying reduced electricity demand from pandemic impact in the previous fiscal year. As a result, the segment posted ¥5,633mn in net sales (+33.2% YoY) and ¥860mn in operating income (-13.8%) and incurred setback in operating margin from 23.6% in the previous fiscal year to 15.3%. Meanwhile, contract volume (cumulative) reached 47,118 contracts, surpassing the plan's 46,921 contracts. The segment overshot period-start project targets by 15.1% in net sales and 23.4% in operating income.



Note: Segment income values are prior to deducting Companywide costs
Source: Prepared by FISCO from the Company's financial results

Realized high profitability and sound finances

2. Financial condition and cash flow situation

Looking at the financial conditions at the end of 2Q FY03/2022, current assets fell by ¥595mn versus the end of the previous fiscal year, even with increase in accounts receivable, on declines in cash and deposits and unreceived corporate tax refunds. Fixed assets increased by ¥337mn mainly due to a rise in investment securities. Total assets hence dropped by ¥258mn to ¥12,661mn. In liabilities, current liabilities declined by ¥1,254mn mainly on downturn in accounts payable. Fixed liabilities slipped by ¥230mn due to decline in long-term loans. Total liabilities hence dropped by ¥1,485mn to ¥5,416mn. Net assets improved by ¥1,227mn to ¥7,244mn, primarily due to an increase in comprehensive profit attributable to owners of parent.

Given these trends, the Company's capital ratio increased from 46.5% in the previous fiscal year to 57.0% at end-2Q FY03/2022, confirming very strong financial soundness. While the capital ratio temporarily declined at the end of FY03/2021 because of the increase in bank loans on response to losses in Electricity Retailing Business, the capital ratio returned to the original level aided by repayment of loans in this fiscal year. Furthermore, ROE was 20.1% in FY03/2021, exhibiting high profitability. The Company's results are well above averages for companies listed on TSE-1 (all industries) in FY03/2021, a capital ratio of 30.1% and ROE of 7.51%, based on listed-company consolidated abbreviated financial statement totals provided by Japan Exchange Group <8697>.

Consolidated balance sheet and management indicators

(¥mn)

	FY3/21	2Q FY3/22	YoY change
Current assets	11,165	10,570	-595
(Cash and deposits)	8,206	7,281	-925
(Promissory notes received, accounts receivables, and contract assets)	-	3,012	-
Fixed assets	1,753	2,090	337
Tangible fixed assets	1,028	1,001	-27
Intangible fixed assets	13	11	-2
Investments and other assets	710	1,077	366
Total assets	12,919	12,661	-258
Current liabilities	5,204	3,950	-1,254
Fixed liabilities	1,697	1,466	-230
(Interest-bearing debt)	2,157	1,861	-296
Total liabilities	6,902	5,416	-1,485
Net assets	6,016	7,244	1,227
Soundness			
Liquidity ratio	214.5%	267.6%	
Capital ratio	46.5%	57.0%	
Profitability			
ROA (Ordinary income to total assets ratio)	16.2%	-	
ROE (Return on equity)	20.1%	-	

Source: Prepared by FISCO from the Company's financial results

Cash and cash equivalents increased ¥2,400mn YoY to ¥7,281mn at the end of 2Q FY03/2022.

Looking at cash flow trends in 2Q FY03/2022, funds obtained from operating activities totaled ¥93mn (compared to ¥925mn in the previous fiscal year). Despite an increase of ¥1,942mn in net income before taxes and other adjustments, funds incurred setbacks from decline in purchase liabilities of ¥1,303mn, decline in unpaid amounts of ¥286mn, and ¥331mn in corporate tax and others.

Funds spent on investment activities totaled ¥448mn (compared to ¥175mn in income in the previous fiscal year). While sale of investment securities provided ¥113mn of inflow, the main outflow source was ¥600mn in purchase of investment securities.

Funds spent on financing activities totaled ¥569mn (compared to ¥396mn in 2Q FY03/2021). This resulted from ¥297mn in repayment of long-term loans payable and ¥272mn in dividend payouts.

Cash flow statement

(¥mn)

	2Q FY3/21	2Q FY3/22	YoY change
Cash flow from operating activities	925	93	-831
Cash flow from investing activities	175	-448	-624
Cash flow from financing activities	-396	-569	-173
Ending cash & cash equivalent balance	4,880	7,281	2,400

Source: Prepared by FISCO from the Company's financial results

Outlook

Projects higher sales and profits in FY03/2022 even with an uncertain business environment, large contribution from earnings recovery in Electricity Retailing Business

1. FY03/2022 forecasts

The Company posted strong performance exceeding project in 2Q FY03/2022 but maintains the FY03/2022 expectation along with the FY03/2021 results announcement disclosed in May 2021.

Looking at the Group's business environment, electricity cost reduction and energy-efficient appliances attract firm demand, unrelated to economic trends, and demand is rising for photovoltaic power systems and storage batteries due to interest in utilizing renewable energy aimed at realizing a decarbonized society. Nevertheless, management has not revised full-year expectation, despite 2Q upside, considering the impact of increase in electricity procurement prices against a backdrop of upswing in fuel prices and other factors.

In Energy Cost Solutions Business, the Company is likely to continue expanding sales of photovoltaic systems for commercial self-consumption because of economic benefits and demand for renewable energy.

In Smart House Project Business, the Company continues to promote sales of storage batteries accompanying increases in renewable energy demand and post-FIT cases.

In Electricity Retailing Business, the Company plans to substantially lift new contract acquisitions from approximately 8,000 contracts in FY03/2021 to approximately 11,500 contracts by allocating human resources again this fiscal year considering its upbeat recruitment of new contracts. While regular disclosure of a supply-demand survey and market monitoring and other measures by the Electricity and Gas Market Surveillance Commission should help in avoiding a steep rise in electricity market prices along the lines that occurred in December 2020 to January 2021, the Company lowered the percentage of contracts subject to price fluctuation risk from 60-70% in FY03/2021 to 30% by raising the direct-purchase power source ratio and making other adjustments. It is also reducing procurement price fluctuation risk through continued recruitment of customers with low load factor (percentage of average annual electricity consumed to peak contracted electricity volume).

Based on these points, the Company expects sharply higher sales and profits in FY03/2022 at ¥20,025mn in net sales (+3.7% YoY), ¥3,100mn in operating income (+87.8%), ¥3,155mn in ordinary income (+80.8%), and ¥2,073mn in net income attributable to owners of parent (+85.1%). The main anticipated driver of steep overall profit increase is earnings recovery in Electricity Retailing Business that struggled in the previous fiscal year. As noted above, however, the period-start forecast relies on conservative assumptions. In fact, since the various 2Q profit values already exceed 60% of full-year guidance, FISCO thinks the Company is likely to beat FY03/2022 period-start forecast too.

FY3/22 consolidated results outlook

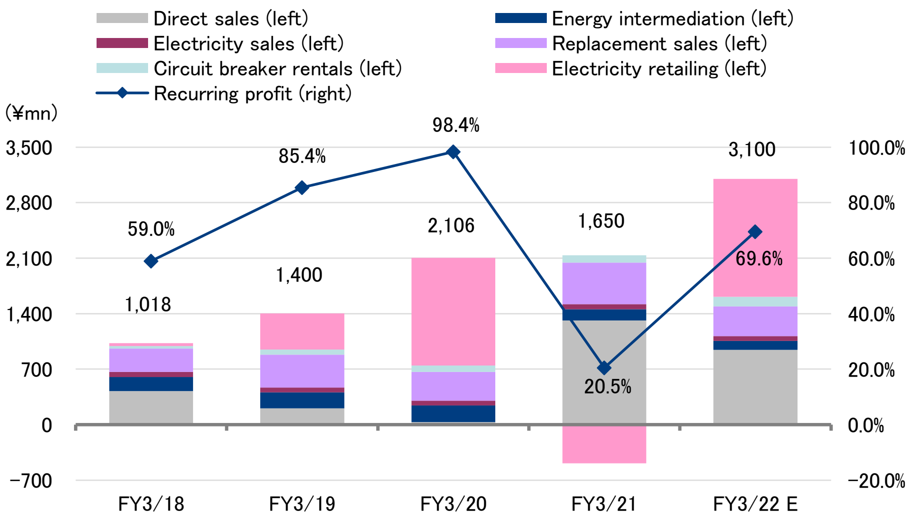
(¥mn)

	FY3/21		FY3/22		YoY	
	Results	% of sales	Forecast	% of sales	YoY change	% change
Net sales	19,311	100.0%	20,025	100.0%	713	3.7%
Operating income	1,650	8.5%	3,100	15.5%	1,449	87.8%
Ordinary income	1,745	9.0%	3,155	15.8%	1,409	80.8%
Profit attributable to owners of parent	1,120	5.8%	2,073	10.4%	953	85.1%

Source: Prepared by FISCO from the Company's financial results

Breaking down the Company's consolidated operating income, recurring profit (profit other than non-recurring profit from direct sales) rose from 59.0% in FY03/2018 to 98.4% in FY03/2020 due to the expansion of the electricity retailing business. While this portion dropped to 20.5% in FY03/2021 on losses in electricity retailing accompanying upswing in electricity market prices, it is headed back upward to a targeted 69.6% again in FY03/2022 thanks to government measures to stabilize electricity market prices and the Company's own steps to raise the direct-purchase power source ratio. An increase in the share of stable profits implies low risk of profits missing forecasts.

Composition of consolidated operating income



Note: Direct sales generate flow profits, and other businesses provide recurring profits
Source: Prepared by FISCO from the Company's results briefing materials

Continuing growth with Electricity Retailing Business as the driver and also pursuing new growth strategies

2. Strategies by business segment

Energy Cost Solutions Business delivers total solutions for improving operations, facilities, and procurement to small and mid-sized businesses and other low-voltage electricity customers and office buildings, large plants, and other high-voltage electricity customers.

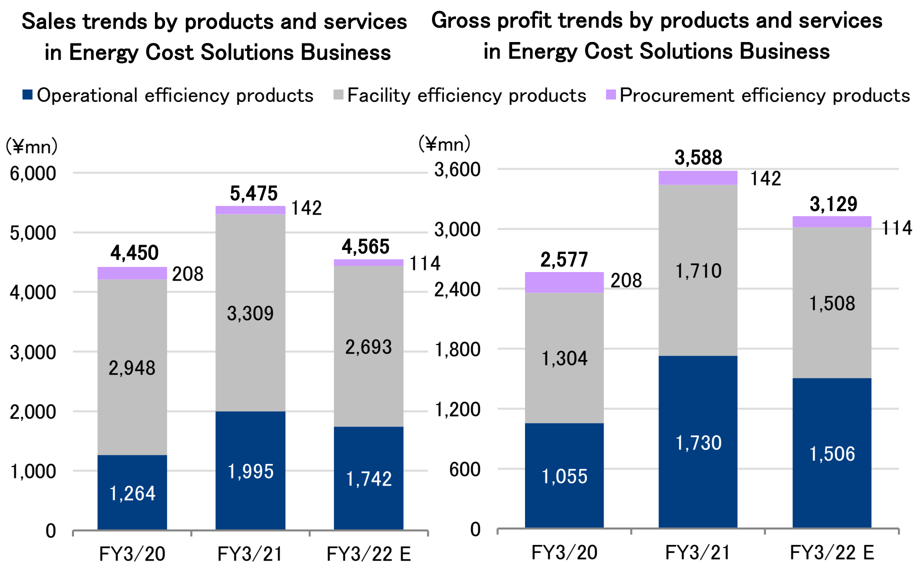
Operational improvement aims to reduce base electricity fees through revision of electricity usage methods and contract content. Specifically, the Company sells “IoT devices” for remote monitoring by visualizing electricity consumption volume via sensors and “electronic circuit breakers” that support stable operation of machinery and equipment and lower electricity costs.

Facility improvement seeks to lower electricity usage fees by replacing existing facilities with equipment that offers high energy-savings effect. Specifically, the Company sells “LED lighting” that curtails consumed electricity and has approximately a four-fold product life compared to fluorescent lights, “photovoltaic systems for commercial self-consumption” that reduce electricity costs by installing photovoltaic power systems on factory roofs and other locations and directly using the generated electricity (the Company started handling these systems in FY03/2021), commercial air conditioners, transformers, and other various energy-efficient appliances.

Procurement improvement facilitates cheaper procurement of electricity itself by making adjustments to electricity procurement sources. This business involves “electricity intermediation” service of arranging electricity supply based on optimal electricity proposals from multiple retail electricity operators. The segment acquires new customers through consulting to lower base electricity fees and selling LED lighting and other energy-efficient appliances, and resulting expansion of the customer base drives gains in recurring revenue from replacement sales, electricity intermediation fees, and electronic circuit breaker rental income and contributes to cross-selling of commercial air conditioners, transformers, compressors, and other energy-efficient appliances.

Amid firm demand for reduction of electricity costs, Energy Cost Solutions Business intends to continue promoting sales of energy-efficient appliances and also expand sales of photovoltaic systems for commercial self-consumption. While it temporarily shortened lead time from order placement to sales recognition to cover losses in Electricity Retailing Business in 4Q FY03/2021, the Company has a conservative expectation premised on normal lead time in FY03/2022 project and expects sales and profit declines in all business areas – operation, facility, and procurement improvement.

Based on these trends, the Company forecasts FY03/2022 results at ¥4,565mn in net sales (-16.6% YoY), ¥3,129mn in gross profit (-12.8%), and ¥1,817mn in operating income (-13.4%). The Company is not incurring much impact from the COVID-19 pandemic because customers exhibit strong demand for cost-saving products regardless of economic trends and it uses a sales format of setting up visits by coordinating individually with customers. In fact, the segment achieved healthy progress at a pace exceeding the plan in 2Q with ¥2,597mn in net sales +10.9% YoY), ¥1,779mn in gross profit (+19.5%), and ¥1,150mn in operating income (+45.3%).



Source: Prepared by FISCO from the Company's results briefing materials

Electricity Retailing Business sells electricity procured from JEPX and power generating companies at inexpensive pricing to customers and receives electricity charges from customers as the income source. The Company aims to expand income (recurring revenue) in this business by promoting sales of low-priced electricity utilizing its base of low-voltage electricity customers that have a low load factor (percentage of average electricity usage to peak contract electricity) acquired in the Energy Cost Solutions Business and leverage this as the driver of future growth by the overall Group.

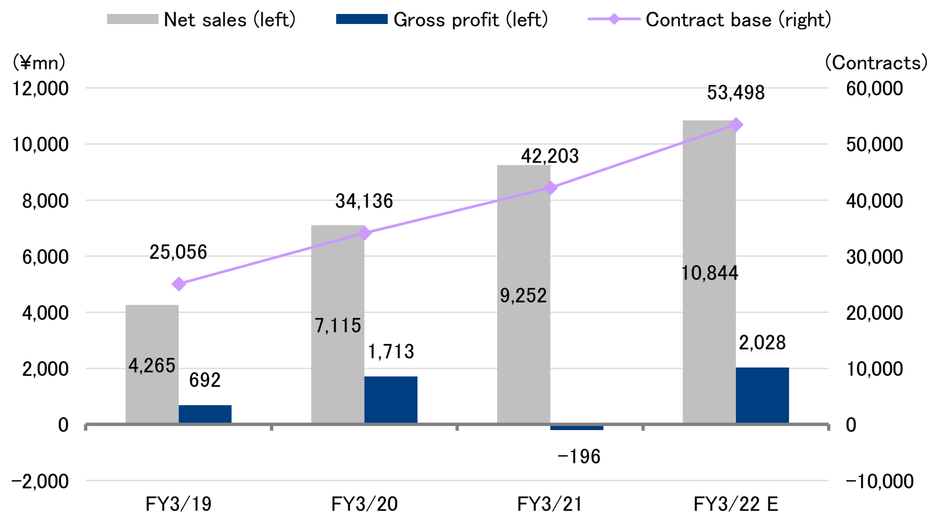
The Group has a very high contract closure rate because it addresses customers that have actually realized savings in electricity costs via consulting on electricity cost reduction. Due to targeting businesses with low load factor as well, it seeks differentiation in profitability versus other electricity retailing businesses. Furthermore, the Company aims to expand income opportunities by broadening the scope of electricity retail supply to all electricity users from low to high voltage.

Electricity Retailing Business conducts cross-selling to the existing customer base of about 52,000, which mainly utilizes electronic circuit breakers, as of FY03/2021, and this aspect is fueling differentiation. Since factories and other locations use different voltages to power machines and lighting, the segment aims to acquire 104,000 contracts, or twice the number of customers. The Group has reached a 78% conversion rate from other energy companies to itself and only has a 0.4% monthly average cancellation rate. With a customer base that has many businesses with low load factor (9.5% in FY03/2021; lower than the 30-40% at other companies), it secures profitability even during upswings in electricity procurement prices driven by seasonal factors, particularly in the summer and winter, and hence is capable of sustaining high profitability. Since customers with low load factor do not have large electricity consumption volume and base fees contribute a high percentage of electricity sales, impact from electricity market price fluctuations is limited.

However, upswing in electricity market prices heavily affected this business in 4Q FY03/2021. Electricity market conditions tightened, because of decline in thermal-fired electricity supply related to a drop in LNG inventories and stronger electricity demand fueled by a cold wave, and this triggered buying at high prices in JEPX's spot market during December 2020 to January 2021 and an upward spiral in the spot price and imbalance price. Continuation of sold-out conditions from decline in sell offers in the spot market and a high volume of bids that could be not finalized caused about ¥2bn in imbalance fees (fees paid as adjustment cost in situations in which electricity supply excesses/shortages occur due to inability to jointly attain the same volume in the plan and results; higher-than-normal electricity rates are charged as a penalty when there is electricity output volume that cannot be purchased). Electricity Retailing Business booked a loss because of the large rise in sales unit costs in retailing business. Subsequent steps, such as improving disclosure of various types of information and setting an upper limit on imbalance fees, should avoid upswing in electricity market prices along the lines of the previous fiscal year in the future. Additionally, the Group is raising its ratio of direct-purchase power sources that use a fixed price (these are direct transactions with power companies that do not go through the electricity exchange). It intends to lower the percentage with price fluctuation risk from 60-70% in FY03/2021 to 30% as a strategy for dealing with volatility in the electricity procurement price.

Segment targets in FY03/2022 are 53,498 contracts (+26.8% YoY), ¥10,844mn in net sales (+17.2%), ¥2,028mn in gross profit (vs. a ¥196mn loss in the previous fiscal year), and ¥1,485mn in operating income (vs. a ¥486mn loss). Meanwhile, sales and profits outpaced project in 2Q FY03/2022, despite profit decline on higher sales, with larger contract volume than planned at 47,118 contracts at end-2Q and results at ¥5,633mn in net sales (+33.2% YoY), ¥1,109mn in gross profit (-6.2%), and ¥860mn in operating income (-13.8%) in 2Q.

Contract volume and results trends in Electricity Retailing Business



Source: Prepared by FISCO from the Company's materials

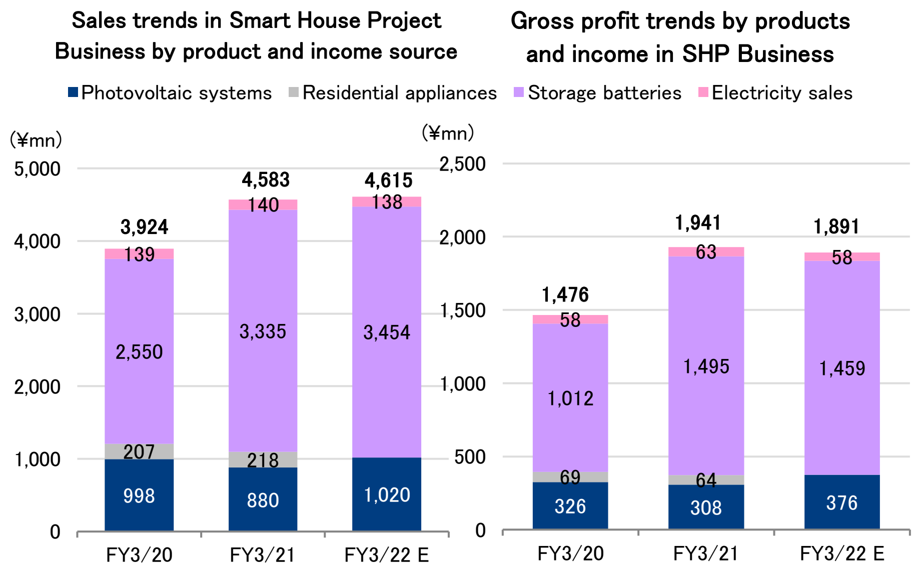
Smart House Project Business promotes bundled sales of household photovoltaic systems and storage batteries and standalone sales of storage batteries and also conducts tie-up sales of energy-related products through business alliances with various partners. The Company intends to bolster storage battery sales by promoting event sales and alliance sales.

In the solar power market, installations of home-use storage battery systems are likely to accelerate with expirations of the applicable period for the FIT program of fixed-price purchase of surplus electricity (post-FIT cases). Since FIT period expirations prevent users from selling power generated by solar power facilities at the high prices received up to now and increases the appeal of consuming self-generated power, demand for storage batteries should rise. With this equipment, users can maximize benefits from adopting an ideal combination of self-generated power consumption and power sales tailored to their own electricity demand format.

According to METI, installations of home-use (new homes and existing homes) power storage systems expanded from 110,000 units (annual) in 2019 to 130,000 units in 2020 (putting cumulative volume at about 490,000 units) and should increase further to 270,000 units in 2025 (about 1.58mn units) and 350,000 units in 2030 (about 3.14mn units). It also projects increase in the share of power storage systems for solar power locations to 44% in 2025 and approximately 77% in 2030 (both cumulative values).

The Company plans to continue promoting storage battery sales in FY03/2022 accompanying increases in renewable energy demand and post-FIT cases. Similar to Energy Cost Solutions Business, the segment temporarily shortened lead time until sales recognition in 4Q FY03/2021 and utilizes a conservative expectation premised on ordinary lead time in the FY03/2022 plan.

Smart House Project Business expects continued upbeat storage battery and photovoltaic system business in FY03/2022. Full-year expectation are approximately flat levels in net sales at ¥4,615mn (+0.7% YoY) and ¥1,891mn in gross profit (-2.6%) and steep decline in operating income at ¥550mn (-26.2%). Nevertheless, 2Q results were ¥2,172mn in net sales (+24.3% YoY), ¥912mn in gross profit (+25.8%), and ¥264mn in operating income (+56.7%). Thanks to strong storage battery business, while sales and gross profit were generally on track with the plan, operating income substantially overshot.



Source: Prepared by FISCO from the Company's results briefing materials

3. New growth strategy

The Group aims to achieve rapid growth in electricity retailing business and expand sales of storage batteries, addressing a market environment that offers rising income opportunities from full liberalization of the retail market for electricity and expansion of users that have completed FIT purchase periods. Furthermore, it has reduced market procurement from the 60-70% level in FY03/2021 to about 30% after the experience of heavy earnings setback in the Electricity Retailing Business from the impact of steep upswing in electricity market pricing in December 2020 and January 2021. It intends to lower risk of procurement price volatility by utilizing this type of hedging approach.

The Group newly started provision of photovoltaic systems for commercial self-consumption too in FY03/2021. This initiative supports reduction of electricity costs by installing photovoltaic power systems on factory roofs and in other locations and using generated electricity at the factory. It should be capable of submitting proposals with relative ease due to knowing electricity consumption levels at customers of its electricity breakers, LED lighting, and other products. Furthermore, selling commercial photovoltaic power systems for self-consumption to small and medium-term business is an area with relatively few rivals, and these systems are more profitable than commercial air conditioners and other existing products.

Another new business launched in FY03/2022 is selling photovoltaic systems based on a power purchase agreement (PPA). With a PPA, electricity users (businesses and individual homes) provide space on site land, on roofs, and in other locations to PPA businesses, and the latter installs the photovoltaic system and other power facilities at no charge and operates and manages them. The PPA business measures and charges for site electricity consumption volume using generated power, and the user pays the electricity fees. Under this format, users do not have to make an initial investment and gain ownership of the photovoltaic system after a period of 10 years from the installation. This business is part of the Company's future growth strategy.

The Group plans to sustain sales and profit increases by obtaining steady profits in Energy Cost Solutions Business and Smart House Project Business while expanding income in Electricity Retailing Business. As explained above, it is not satisfied with just the current situation and is enthusiastically pursuing new growth opportunities. Management deserves credit for its proactive stance in launching new businesses.

The Company previously updated the medium-term management plan and announced a new plan annually. Since FY03/2021, it has not announced an updated plan because of uncertainty related to the COVID-19 pandemic. However, FISCO thinks it is meaningful to officially announce a medium-term management plan in order to clarify management policy as a company and share its future vision with investors and employees.

Shareholder return policy

Intends to pay a ¥14.5 annual dividend in FY03/2022

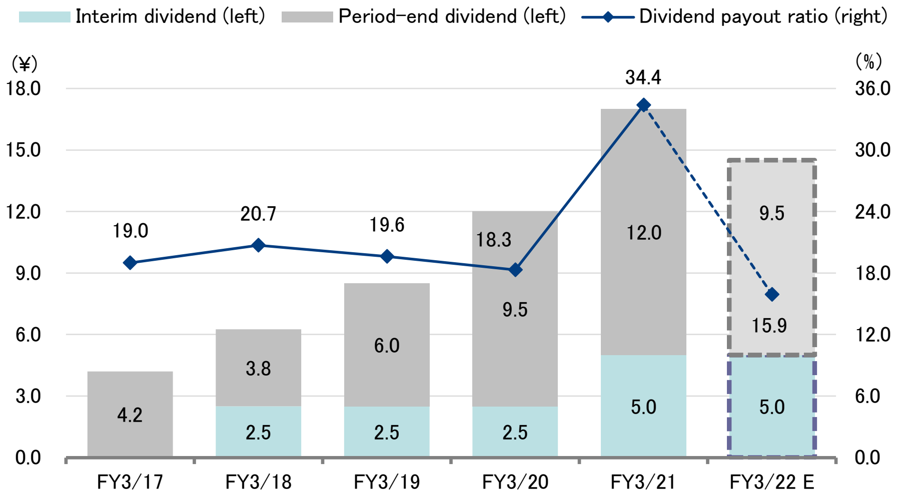
The Company pays dividends as a shareholder return measure and has a basic policy related to profit distribution of stably returning profits to shareholders after comprehensive assessment of ensuring sufficient profit retention to bolster the business foundation and enhance enterprise value and allocate earnings to shareholders in according with income trends. It implements stock splits too for the purpose of increasing the liquidity of its shares and broadening the investor segment through reduction of the value per investment unit. The Company conducted a 1-to-2 stock split on September 1, 2020 in FY03/2021. Furthermore, it has paid interim dividends since introducing them in FY03/2018.

The Company raised the dividend in five consecutive fiscal years from FY03/2017 to FY03/2021. The ¥17.0 dividend paid in FY03/2021 consisted of a ¥5.0 interim dividend (including a ¥2.5 commemorative dividend marking the stock's switch from the TSE JASDAQ Standard market to TSE-2) and a ¥12.0 fiscal year-end dividend (including a ¥2.5 commemorative dividend marking the stock's designation as a TSE-1 listing) and lifted the dividend payout ratio to 34.4%. In FY03/2022, the Company plans to pay a ¥14.5 dividend with a ¥5.0 interim dividend and a ¥9.5 period-end dividend. This works out to a 15.9% dividend payout ratio, putting it below the 20% targeted by management. Nevertheless, the upbeat 2Q results suggest that full-year earnings might overshoot and thereby support a possible period-end dividend hike.

The Company had decided to apply to Prime Market that begins in April 2022. FISCO believes it sufficiently meets the listing standards defined by the TSE of having market cap (liquidity) suited to selection as an investment by many institutional investors, conducting robust governance and engaging in constructive dialogue with investors, and proactively pursuing sustainable growth and longer-term enhancement of enterprise value. Consequently,it was approved by TSE on Jan.11,2022 that the company lists on Prime Market.

Meanwhile, the Group also proactively promotes corporate social responsibility (CSR). Its fundamental policy calls for enhancement of corporate value and provision of solutions to issues confronting society and the environment and contribution to sustainable advances in society by constantly sustaining provision of products and services that meet societal needs and creating new value. Products and services handled by the Group help reduce burden on the global environment. The Group supports Yokohama FC, a J1 professional soccer team, as an official club partner. Its announcement on July 1, 2020 of a decision to launch Yokohama FC Denki, an electricity fee plan that assists the club, and allocate a portion of collected electricity fees to training environment facilities is a type of CSR as well. A growing number of institutional investments are making ESG investments (investing in stocks that emphasizes the environment, social, and governance aspects) both globally and in Japan as well in recent years. We think the Company's stock also deserves attention from this perspective.

Dividend per share and dividend payout ratio



Note: Retroactively revised dividends on a post-split basis, taking into account the following stock splits: 1-to-1.5 shares in October 2017, 1-to-2 shares in August 2018, and 1-to-2 shares in September 2020. The FY03/2021 interim dividend includes a ¥2.5 commemorative dividend for the move to TSE-2 and a ¥2.5 commemorative dividend marking the stock's designation as a TSE-1 listing in the period-end dividend.
Source: Prepared by FISCO from the Company's financial results

Disclaimer

FISCO Ltd. ("FISCO") offer stock price and index information for use under the approval of the Tokyo Stock Exchange, the Osaka Stock Exchange and Nikkei Inc.

This report is provided solely for the purpose of offering information, and is not a solicitation of investment nor any other act or action.

FISCO prepared and published this report based on information which it considered reliable; however, FISCO does not warrant the accuracy, completeness, fitness nor reliability of the contents of this report or the said information.

The issuers' securities, currencies, commodities, securities and other financial instruments mentioned in this report may increase or decrease in value or lose their value due to influence from corporate activities, economic policies, world affairs and other factors. This report does not make any promises regarding any future outcomes. If you use this report or any information mentioned herein, regardless of the purpose therefor, such use shall be made based on your judgment and responsibility, and FISCO shall not be liable for any damage incurred by you as a result of such use, irrespective of the reason.

This report has been prepared at the request of the company subject hereto based on the provision of information by such company through telephone interviews and the like. However, the hypotheses, conclusions and all other contents contained herein are based on analysis by FISCO. The contents of this report are as of the time of the preparation hereof, and are subject to change without notice. FISCO is not obligated to update this report.

The intellectual property rights, including the copyrights to the main text hereof, the data and the like, belong to FISCO, and any revision, reprocessing, reproduction, transmission, distribution or the like of this report and any duplicate hereof without the permission of FISCO is strictly prohibited.

FISCO and its affiliated companies, as well as the directors, officers and employees thereof, may currently or in the future trade or hold the financial instruments or the securities of issuers that are mentioned in this report.

Please use the information in this report upon accepting the above points.

■ For inquiry, please contact: ■
FISCO Ltd.
5-13-3 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062
Phone: 03-5774-2443 (IR Consulting Business Division)
Email: support@fisco.co.jp